

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 IO-10 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /130 W

----- 083655

R 311805Z OCT 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4026

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY PARIS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 17882

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING OCTOBER 30)

1. THE IFO SURVEY OF MANUFACTURERS' OPINION OF THE BUSINESS SITUATION IN SEPTEMBER REFLECTED A VERY MODEST DECLINE IN PESSIMISM. SOME PEOPLE INTERPRET THIS AS AN INDICATION THAT SEPTEMBER FIGURES MAY SHOW AN INCREASE IN THE INDEX OF INDUSTRIAL PRODUCTION. ON BALANCE, HOWEVER, MORE RESPONDENTS STILL FELT PESSIMISTIC RATHER THAN OPTIMISTIC ABOUT EXPECTATIONS FOR THE COMING MONTHS. DURABLE CONSUMER GOODS SHOWED THE GREATEST RELATIVE STRENGTH OF THE VARIOUS SECTORS WITH AN EQUAL NUMBER OF

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PESSIMISTIC AND OPTIMISTIC OPINIONS BEING RECORDED.

HOWEVER, THE IMPORTANT CAPITAL GOODS SECTOR SHOWS NO IMPROVEMENT, WITH 22 PERCENT MORE FIRMS REPORTING PESSIMISTICALLY THAN OPTIMISTICALLY -- THE SAME AS IT HAS BEEN FOR THE LAST THREE MONTHS.

2. MONEY SUPPLY: IN SEPTEMBER THE NARROWLY DEFINED MONEY SUPPLY (M1) INCREASED BY DM 2.8 BILLION WHILE THE WIDELY DEFINED MONEY SUPPLY (M2) DECLINED BY DM 2.7 BILLION. ON A SEASONALLY ADJUSTED BASIS, HOWEVER, M1 INCREASED BY DM 5.3 BILLION AND M2 BY DM 2.0 BILLION. DURING -THE THIRD QUARTER (ON A SEASONALLY ADJUSTED BASIS AND AT ANNUAL RATES) M1 ROSE SUBSTANTIALLY BY 23 PERCENT WHILE M2 INCREASED BY 8 PERCENT. DURING SEPTEMBER THE INDIVIDUAL DETERMINANTS AND COMPONENTS OF THE MONEY SUPPLY (SEASONALLY UNADJUSTED) DEVELOPED AS FOLLOWS:

	1975	1974
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	SEP	AUG SEP
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BANK LENDING TO DOMESTIC NON-BANKS	9.3	9.4	5.9
OF WHICH TO PUBLIC AUTHORITIES	3.5	8.3	0.3
PRIVATE SECTOR	5.8	1.1	5.6
NET EXTERNAL ASSETS OF BANKS			
(INCLUDING BUNDESBANK)	0.1	2.0	1.3
SAVINGS DEPOSITS AND SAVINGS BONDS	3.5	4.9	1.4
TIME DEPOSITS (1) AND OUTSTANDING			
BANK BONDS (2)	2.2	1.3	1.3
OFFICIAL ASSETS HELD AT CENTRAL BANK	3.1	3.9	3.8
OTHER	-3.3	1.5	3.7
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MONEY SUPPLY (M2)	-2.7	2.8	-3.0
OF WHICH: CURRENCY IN CIRCULATION			
AND SIGHT DEPOSITS (M1)	2.8	0.9	0.3
TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS	-5.5	1.9	-3.3

(1) WITH MATURITIES OF 4 YEARS AND MORE.

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(2) EXCLUDING BONDS HELD BY BANKS.

3. FOREIGN EXCHANGE MARKET: ON OCTOBER 30 THE DOLLAR WEAKENED, DECLINING TO THE LOWEST RATE SINCE JULY 28. THE GERMAN FINANCIAL PRESS ATTRIBUTED THE WEAKENING MAINLY TO PRESIDENT FORD'S REFUSAL TO BAIL OUT NEW YORK CITY AND TO LOWER U.S. INTEREST RATES. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS

FOLLOWS:

FORWARD DOLLARS
(DISCOUNTS IN PCT.P.A.)
SPOT DOLLARS ONE-MONTH THREE-MONTH

OCT 23	2.5575	-2.8	-2.8
24	2.5585	-2.1	-2.4
27	2.5548	-2.4	-2.4
28	2.5706	-2.1	-2.5
29	2.5727	-2.2	-2.6

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 4027

INFO AMEMBASSY BERN

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AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY PARIS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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30	2.5525	-2.7	-3.0
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4. MONEY MARKET: AT THE END OF OCTOBER THE GERMAN CALL MONEY MARKET EASED CONSIDERABLY APPARENTLY SINCE BANKS HAD FULFILLED THEIR OCTOBER RESERVE REQUIREMENTS BEFORE THE END OF THE MONTH. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

OCT 23	3.4-3.5	3.6-3.8	3.9-4.1
24	3.6-3.8	3.6-3.9	3.9-4.1
27	3.4-3.7	3.7-3.9	4.0-4.2

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28	4.3-4.5	3.7-3.9	4.0-4.3
29	3.8-4.1	3.6-3.8	4.0-4.2
30	2.0-2.1	3.5-3.7	4.0-4.2

5. BUNDESBANK FOREIGN POSITION: IN THE THIRD WEEK OF OCTOBER (OCTOBER 16-23) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 80.8 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE ROSE BY DM 488 MILLION MAINLY DUE TO DOLLAR PURCHASES BY THE BUNDESBANK ON FOREIGN EXCHANGE MARKETS WHILE GROSS LIABILITIES DECLINED BY ABOUT DM 290 MILLION.

6. BANK LIQUIDITY: IN THE THIRD WEEK OF OCTOBER BANK LIQUIDITY INCREASED BY DM 0.5 BILLION. MAJOR FACTORS INCREASING LIQUIDITY WERE DECLINES IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 4.3 BILLION) AND IN CURRENCY IN CIRCULATION (DM 2.1 BILLION) AND DM 0.9 BILLION OF BUNDESBANK BOND PURCHASES ON THE OPEN MARKET. THE PRINCIPLE FACTOR REDUCING LIQUIDITY WAS DM 5.7 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK RESULTING FROM PAYMENTS FOR THE MINOR MID-MONTH TAX DATE. OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 1.1 BILLION. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 0.8 BILLION. AT THE SAME TIME THEY INCREASED LOMBARD BORROWINGS BY DM 0.1 BILLION AND BORROWINGS UNDER THE OPEN MARKET FACILITY BY DM 0.2 BILLION.

7. BOND MARKET: DEVELOPMENTS ON THE DOMESTIC BOND MARKET AFTER THE OCTOBER 23 DECISION BY THE BUNDESBANK TO REDUCE ITS OPEN MARKET PURCHASES OF BONDS OF THE FEDERAL GOVERNMENT, THE FEDERAL RAILWAYS AND THE FEDERAL POSTAL SYSTEM ARE REPORTED IN SEPTEL.

ON OCTOBER 29 THE CENTRAL CAPITAL MARKET SUBCOMMITTEE ON FOREIGN DM BONDS DECIDED TO LIFT THE MORATORIUM ON THE

FLOTATION OF DEUTSCHEMARK DENOMINATED FOREIGN BONDS
FROM THE BEGINNING OF NOVEMBER. REPORTEDLY THE FIRST
FOREIGN DM BOND TO BE ISSUED IN EARLY NOVEMBER WILL BE
A DM 150 MILLION ISSUE OF THE EUROPEAN INVESTMENT BANK
FOR WHICH A 8-1/4 PERCENT COUPON AND A MATURITY OF 5
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YEARS IS EXPECTED. ACCORDING TO PRESS REPORTS, THREE
PRIVATE DM PLACEMENTS ARE BEING PREPARED FOR THE FIRST
HALF OF NOVEMBER INCLUDING PLACEMENTS OF DM 50 MILLION
EACH FOR THE ASIAN DEVELOPMENT BANK AND THE INTER-
AMERICAN DEVELOPMENT BANK. A MEETING OF THE FULL CENTRAL
CAPITAL MARKET COMMITTEE IS SCHEDULED FOR NOVEMBER 17
WHEN THE DECISION WHETHER TO REOPEN THE BOND MARKET FOR
DOMESTIC PUBLIC SECTOR ISSUES WILL BE MADE.
HILLENBRAND

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